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REPORT OF THE SECRETARY-GENERAL PURSUANT TO PARAGRAPHS 28 AND 30 OF RESOLUTION 1284 (1999) AND PARAGRAPH 5 OF RESOLUTION 1281 (1999)

I. INTRODUCTION

1. The present report is submitted to the Security Council pursuant to paragraphs 28 and 30 of its resolution 1284 (1999) of 17 December 1999 and paragraph 5 of its resolution 1281 (1999) of 10 December 1999. It may be recalled that the Council, in a letter dated 28 January 2000 (S/2000/64), had endorsed my proposal to consolidate a number of reporting requirements under the above resolutions into one report (see S/2000/22, para. 22).

2. In paragraph 28 of resolution 1284 (1999), the Security Council requested the Secretary-General to report on the progress made in meeting the humanitarian needs of the Iraqi people and on the revenues necessary to meet those needs, including recommendations on necessary additions to the current allocation for oil spare parts and equipment, on the basis of a comprehensive survey of the condition of the Iraqi oil production sector.

3. In paragraph 30 of the same resolution, the Council requested the Secretary-General to establish a group of experts, including oil industry experts, to report on Iraq's existing petroleum production and export capacity and to make recommendations, to be updated as necessary, on alternatives for increasing Iraq's petroleum production and export capacity in a manner consistent with the purposes of relevant resolutions and to report on the options for involving foreign oil companies in Iraq's oil sector, including investments, subject to appropriate monitoring and controls.

4. For the preparation of the present report, the Office of the Iraq Programme undertook an inter-agency review of the humanitarian programme established pursuant to resolution 986 (1995) of 14 April 1995 (hereafter referred to as the programme), with the full participation of staff members at Headquarters and in the field. The Office also undertook a review of the whole process of contracting, application processing, obtaining approval by the Security Council Committee established by resolution 661 (1990) of 6 August 1990, procurement and shipment, as well as the timely distribution of humanitarian supplies within Iraq - a complex, interdependent chain of activities involving the Security Council Committee, the Government of Iraq and other Member States, the United

Nations Secretariat and the agencies and programmes concerned, as well as private firms and financial institutions. The results of the process review are discussed in sections IV and VI of the present report. Furthermore, relevant information that would have been provided in a separate report pursuant to paragraph 5 of resolution 1281 (1999) has also been incorporated into the present report.

5. The full report of the group of experts established pursuant to paragraph 30 of resolution 1284 (1999) will be made available to Council members.

6. In addition to providing information on the progress made in meeting the humanitarian needs of the Iraqi people, the present report examines the extent to which the recommendations contained in my supplementary report dated 1 February 1998 (S/1998/90), as endorsed by the Council, have been implemented. It also identifies additional measures aimed at increasing the effectiveness of the programme, with a view to achieving substantial improvement in both the health and nutritional status of the population and also to address the deterioration of the social services infrastructure.

7. The programme is presently in its seventh phase, effective 11 December 1999. Phase I of the programme officially became effective 10 December 1996. Phases II to VI were, respectively, in effect as follows: 8 June to 4 December 1997; 5 December 1997 to 29 May 1998; 30 May to 25 November 1998; 26 November 1998 to 24 May 1999; and 25 May to 10 December 1999.

8. The humanitarian programme has been implemented pursuant to resolution 986 (1995), the relevant resolutions adopted thereafter and the Memorandum of Understanding concluded on 20 May 1996 by the United Nations Secretariat and the Government of Iraq on the implementation of the resolution (S/1996/356).

9. It is a unique programme, established by the Council under Chapter VII of the Charter of the United Nations as a temporary measure to provide for the humanitarian needs of the Iraqi people, which is being implemented within the context of a sanctions regime with all its attendant political, socio-economic and commercial dimensions, until the fulfilment by the Government of Iraq of the relevant resolutions, including notably resolution 687 (1991) of 3 April 1991. In any assessment of the programme and its implementation, it is essential to bear in mind - as stated in my previous reports - the exceptional and unprecedented complexity of the programme and that it should not, therefore, be confused with a development programme and the requirements of such a programme.

10. It is also essential to bear in mind that, despite the great increase in the range of resources available to meet humanitarian needs throughout Iraq, with a very substantial quantity of inputs to be delivered, the programme was never intended to meet all the humanitarian needs and must be assessed in that context.

II. REVENUE GENERATION AND STATUS OF THE OIL INDUSTRY

A. Oil production and sale of petroleum and petroleum products

11. For phases I to VI, total crude oil exports from Iraq under the programme provided for by resolution 986 (1995) amounted to 1,488 million barrels, with a value of $20.736 billion.

12. Since the beginning of phase VII, and as at 31 January 2000, the oil overseer and the Security Council Committee have reviewed and approved a total of 91 contracts involving purchasers from 33 countries: Algeria (1); Belarus (2); Belgium (1); Brazil (1); China (6); Cyprus (1); Egypt (1); Greece (1); Finland (2); France (4); India (1); Italy (5); Kenya (1); Malaysia (2); Morocco (2); Netherlands (1); Oman (1); Panama (1); Russian Federation (20); Singapore (1); South Africa (1); Spain (4); Sudan (1); Switzerland (8); Thailand (2); Tunisia (3); Turkey (6); Ukraine (1); United Arab Emirates (3); United Kingdom of Great Britain and Northern Ireland (3); United States of America (2); Viet Nam (1) and Yemen (1).

13. The total quantity of oil approved for export under those contracts corresponds to approximately 254.8 million barrels for 180 days, with estimated revenue of $6.5 billion (including pipeline fees, at current prices). The contractual volume at this time is substantially lower than during the previous phase, but additional contracts are expected during phase VII.

14. As at 31 January, the export of petroleum from Iraq under the current phase had proceeded smoothly, with excellent cooperation among the United Nations oil overseer, the independent oil inspection agents (Saybolt Nederland BV), the relevant authorities of Turkey, the Iraqi State Marketing Organization for Oil and the national oil purchasers. Sixty-eight loadings totalling 81.6 million barrels with an estimated value of $1.930 billion have been completed.

15. The overseer has continued to advise and assist the Security Council Committee on oil pricing mechanisms, contract approval and modifications and other pertinent questions related to exports and monitoring under resolution 986 (1995) and other relevant resolutions. The overseer and Saybolt have worked closely to ensure the monitoring of the relevant oil installations as well as the liftings.

16. The Security Council Committee has still been unable to reach consensus on the selection of additional oil overseers, leaving only one oil overseer in the service of the Office of the Iraq Programme. As a result, a great deal of work has been referred to the Committee itself. In view of the period of time that this issue has been under consideration by the Committee and its implications for the effective implementation of the humanitarian programme, I would like to reiterate my previous recommendation for a resolution to the difficulties encountered with regard to the appointment of additional oil overseers.

B. The status of the oil industry

17. Pursuant to paragraph 30 of resolution 1284 (1999), I established a group of experts, including oil industry experts, to report on Iraq's existing petroleum production and export capacity and to make recommendations on alternatives for increasing Iraq's petroleum and export capacity in a manner consistent with the purposes of the relevant resolutions.

18. Pursuant to paragraph 28 of Security Council resolution 1284 (1999), on the basis of the comprehensive survey undertaken of the condition of the Iraqi oil production sector, I am making recommendations to the Council on necessary additions to the current allocation for oil spare parts and equipment.

19. The group of experts was to undertake, in cooperation with the Government of Iraq and taking into account previous studies carried out by United Nations oil experts, the following terms of reference:

(a) To conduct a comprehensive survey of the condition of the Iraqi oil production sector and export capacity;

(b) To review of alternatives for increasing Iraq's petroleum production and export capacity in a manner consistent with the purposes of relevant Security Council resolutions and of the options for involving foreign oil companies in Iraq's oil sector, including investments, subject to appropriate monitoring and controls;

(c) To review and submit a list of additional spare parts and equipment necessary not only to meet the immediate requirements, but also to enable Iraq to increase its exports of petroleum and petroleum products in order to fulfil the humanitarian purposes set out in Council resolution 986 (1995) and related resolutions;

(d) To assess the impact of holds on contract applications for oil spare parts and equipment on the capacity of oil production and export in Iraq;

(e) To make recommendations regarding arrangements for the monitoring of oil spare parts and equipment.

20. The group consisted of six experts. The mission of the group of experts to Iraq took place from 16 to 31 January 2000. The full report of the group of experts is being made available to the members of the Security Council. The following is a summary pursuant to paragraphs 28 and 30 of resolution 1284 (1999).

21. For the purpose of comparison with the mission undertaken from 12 to 22 March 1998 pursuant to paragraphs 12 and 13 of resolution 1153 (1998) of 20 February 1998 (see S/1998/330 and Corr.1), the group followed the previous visit schedule, with additional visits to sites considered pertinent to the terms of reference. These included, inter alia, the loading platforms in the Persian Gulf, the water-injection input to the South Oil Company system at Garmat Ali and the liquefied natural gas plant at Khor-Zubair.

22. Initial meetings were held with the Ministry of Oil upon the group's arrival in Iraq to agree on an itinerary for the duration of the mission; three senior members of the Ministry were assigned to accompany the group during the visit. At these initial meetings the group was advised by the Ministry of Oil that in view of the current political environment:

(a) There would be no discussion on the matter of options for involving foreign oil companies in Iraq's oil sector;

(b) Upon completion of the mission, the Ministry of Oil would advise the group of experts on its estimates of oil production, subdivided into north and south only;

(c) Refinery throughputs were not an issue for discussion by the group of experts.

23. Physical inspections were carried out at all the sites visited, and discussions were held with both senior and local installation staff. Detailed photographic and video records of those inspections were made at all stages.

General observations

24. The group of experts reported that the previously noted generally lamentable state of the Iraqi oil industry had not improved. It is apparent that the decline in the condition of all sectors of the industry continues, and is accelerating in some cases. This trend will continue, and the ability of the Iraqi oil industry to sustain the current reduced production levels will be seriously compromised unless effective action is taken immediately to reverse the situation.

Production

25. In order to maximize revenue, and in expectation of the arrival of spare parts and equipment in 1998 and thereafter, the production of crude oil was incrementally increased by the Government of Iraq to a level of 3 million barrels per day by November 1999, without the technical resources to apply "good oilfield practice". This was achieved by implementing poorly controlled water-injection programmes in the north and south, bringing on-stream some of the pre-1991 stock of pre-drilled wells and initiating production from fields such as Saddam and West Qurna.

26. The Iraqi oil industry is unable to sustain production at these levels because of its inability to replace the lost capacity of depleted strata and "watered-out" wells. The suspension of drilling, well work-over and completion activities and delays in the commissioning of wet-crude treatment plants result directly from a lack of spare parts and equipment.

27. Without prompt action, a continued decline in production is strongly indicated. The Iraqi oil industry continues to adopt high-risk solutions in order to balance the production quantity/oil price equation against the necessity to export crude oil, to produce gas for domestic use and to refine products for transportation and power generation.

Investment levels

28. Since December 1996, some 2,000 million barrels of oil have been produced, and investment in the oil sector has been set by the Security Council at $1.2 billion.

29. A two-year perspective of Iraqi oil production since March 1998 has made it possible to draw several key conclusions regarding the effectiveness of the oil spare parts and equipment programme.

30. Thus, the current level of cash injection for the industry equates to $0.60 per barrel per year (based on the two-year perspective). This cost should be viewed strictly as hard-currency operating expenditure, plus the equivalent of a few cents per barrel for running costs paid in local currency. Not all items in the spare parts and equipment programme are operating consumables or services, and about one third of the value could be construed as investment in infrastructure, that is, capital expenditure. The norm for mature onshore oil production operations in the Middle East (outside Iraq) is approximately $1.50 per barrel per year for operating costs.

31. The inadequacy of the monetary value of the oil spare parts and equipment programme to sustain production operations is now self-evident. At the time of the initiation of the programme, however, all parties accepted the level of $300 million per phase on the assumption that the spare parts and equipment would arrive at a far more rapid rate.

32. The group of experts believe that future investment strategy should be structured to fulfil two main criteria: a pragmatic expectation should be developed so that whatever sum is invested is applied appropriately; and expenditure on new oilfield technology should be permitted in order to optimize the amount of oil recovered from assets such as oil reservoirs.

33. To meet those criteria an alternative to the current "straight replacement" strategy for spare parts and equipment for the Iraqi oil industry is recommended by the group of experts. Current oilfield drainage practice will result in large proportions of the oil remaining in the ground, with ultimate recovery of only 15 to 20 per cent of the oil volumes in place.

34. The implementation of modern technologies associated with horizontal well exploitation (horizontal drilling, three-dimensional seismic acquisition and reservoir simulation, in particular) should help ultimately to bring recovery to between 35 and 50 per cent of oil volumes in place, and is strongly recommended for additional investment funding in the near future. The group of experts estimate that to be effective, the cost of such a commitment should be on the order of $100 million per year.

35. To offset current declines in production capacity, the group of experts believes that a longer-term perspective dictates the inclusion of new projects to develop known reserves that remain unexploited. The capital expenditure to develop and recover 200 million barrels from a new oilfield in the south would probably exceed $300 million (assuming proximity to the main export infrastructure and utilities), and it would take up to two years to install

production facilities and drill wells. A similar, but shallower, field project in the north might cost $250 million. In the event that additional infrastructure may be required, these capital expenditure figures could easily be doubled. (Capital expenditure figures range from $1.5 to $3 per barrel per year for similar Middle East onshore fields elsewhere.)

36. Such projects could not be commissioned until there was certainty that export infrastructure would be available to handle the plateau rate of production expected from each new oilfield. It follows, therefore, that any recommended investment support for horizontal drilling projects should generally precede that for the development of new oilfields.

Refining

37. According to the group of experts, the refineries at Baiji, Basrah and Daura have all been partly rehabilitated over the past year to operate on a simple hydro-skimming technology basis. To achieve this without access to replacement parts, damaged refinery units were cannibalized, and there is no back-up for most units. The failure of such units, exacerbated by a lack of spare parts and equipment, would lead to a serious limitation of refining capacity.

38. The quality of refined products remains extremely poor, and waste-water effluents are highly contaminated, which continue to have a serious impact on environmental conditions. Furthermore, the general lack of safety, fire-fighting and environmental control equipment also leads to an increasing level of concern.

39. The lack of functioning instrumentation and control equipment has resulted in the "hands-on" operation of most refinery units. This, combined with the lack of spare parts and equipment, has led to the accelerating deterioration of equipment and also to a decline in the morale and motivation of operating staff.

Transportation and storage

40. The constraints noted with respect to the transportation and storage of crude oil, which I reported on following the visit of the group of experts in March 1998, remain and have not been effectively resolved.

41. The Iraq-Turkey pipeline system continues to operate without an effective control system. Intermediate storage capacity has been marginally addressed, but the capacity will remain ineffective, as will proposed repairs to the pipeline, until key items required for the safe storage and transportation of crude oil are released from hold.

42. There has been no improvement in the condition of the Mina al-Bakr loading platform. The safety and operational capabilities of this facility remain a major concern. Two berths at the Khor al-Amaya loading platform are under repair as an alternative to Mina al-Bakr should technical problems occur.

43. Repairs to the strategic line are required to increase movement of oil from the south to the north. Until repairs to this line are completed, the overall export volume will be reduced.

44. The export of crude oil via the Iraq-Saudi Arabia pipeline is not considered a priority by the Ministry of Oil in Iraq. Furthermore, according to the Ministry, the export of crude oil via the Iraq-Syrian Arab Republic pipeline will not be contemplated before 2001.

Spare parts and equipment and the impact of holds on contract applications

45. The programme for the provision of spare parts and equipment has not been demonstrably effective. The total value of spare parts and equipment ordered under phases IV to VI that have arrived in Iraq is only about $250 million. As reported previously, a sharp increase in production without concurrent expenditure on spare parts and equipment would severely damage oil-containing rocks, and pipeline systems (S/1998/330 and Corr.1), a situation that has already begun to occur.

46. At the time of the mission of the group of experts to Iraq in March 1998, the estimate of current production was 2.2 million barrels per day, with an export potential of 1.5 million barrels per day. The monitored export figure at that time was 1.2 million barrels per day. As indicated, in November 1999, the level of production reached 3 million barrels per day.

47. The increase in production since March 1998 was achieved as a result of the improvement in reservoir pressure resulting from the effects of previous re-injection and the delivery of chlorine, allowing for the enhancement of water treatment and injection. Furthermore, the delivery of emulsification chemicals allowing for enhancement of the treatment of wet crude, the commencement of production from the Saddam and West Qurna oilfields, the connection of previously drilled wells and the use of gas lift in the north have also contributed significantly to this increase in production.

48. Without access to the majority of contracted spare parts and equipment, however, this increase has resulted in a situation where crude oil production at the levels achieved in November 1999 is no longer sustainable, as is the situation now. Production in recent weeks has decreased by 300,000 barrels per day, or 10 per cent.

49. According to the group of experts, the recent decrease in the production and export of crude oil can be attributed to the failure to replenish depleted wells, the delays in implementing wet crude treatment projects and the loss of producing wells - 56 in the south alone. Other contributing factors include the failure to carry out major plant and equipment overhauls, delays in the repair of the pipeline systems, the further decline in conditions on the Mina al-Bakr loading platform and limitations in the crude oil storage and transportation system. These are all factors that have arisen because of the lack of necessary spare parts and equipment.

50. Exacerbating this situation is the fact that some applications have been placed on hold for a lengthy period of time, and when they are subsequently

approved the suppliers have in certain cases been unwilling to perform as contracted because of significant changes in their costs or other related factors. As a result, the Government of Iraq must either renegotiate the contracts or identify new suppliers.

51. As at 31 January 2000, the total value of applications approved was $506 million, half the total value ($1.1 billion) of applications received. The arrival of additional approved spare parts and equipment, with a total value of $255 million, is still pending. The total value of contract applications on hold for oil spare parts and equipment was $291 million.

52. Until the majority of spare parts and equipment ordered under phases IV to VI are in place, the Ministry of Oil has decided to balance the level of production required to continue the humanitarian programme against an acceptable level of damage to Iraqi oilfields, and will increasingly take the operational "safe route" and continue to scale down its production and export. The level of exports monitored since the beginning of phase VII has averaged 1.8 million barrels per day, which would indicate an average production level of 2.3 to 2.4 million barrels per day.

Necessary additions to the current allocation for oil spare parts and equipment

53. The allocation for oil spare parts and equipment in phases IV and V was authorized by the Security Council at $300 million per phase, although as I have pointed out (S/1998/330 and Corr.1), the original plan of the Ministry of Oil was to allocate $1 billion over a period of 18 months.

54. For phase VI, the group of experts established to prepare the list of parts and equipment requested by the Security Council in paragraph 9 of its resolution 1242 (1999) of 21 May 1999 recommended that funds for oil spare parts and equipment be allocated at a level of $600 million (S/1999/746, annex, para. 48). The group of experts recommended this level as being commensurate with the production levels achieved and predicted, given in particular the emphasis placed on major projects and investment in safety, control of pollution and environmental damage. I indicated to the Council that if oil revenues generated during phase VI were likely to exceed the total of the $3.004 billion required for the implementation of the approved distribution plan, the Government of Iraq intended to enter into additional contracts up to the value of $300 million. As any amount in addition to the $300 million approved by the Council in its resolution 1242 (1999) for the purchase of oil spare parts and equipment would have to be authorized by the Council, I informed the Council that I intended to keep under constant review the revenues received during the phase and would address the matter in the context of my 90-day report.

55. On 4 October 1999, the Security Council adopted resolution 1266 (1999) in which it authorized States to permit the import of petroleum and petroleum products originating in Iraq sufficient to produce an additional sum beyond that provided for in resolution 1242 (1999), up to $3.04 billion, in order to meet the humanitarian deficit of $2.2 billion under phases IV and V.

56. In my letter to the President of the Security Council dated 12 October 1999 (S/1999/1053), I informed the Council of the approved adjustments proposed by

the Government of Iraq for the utilization of the additional revenue. I also recommended that the Council approve the request to increase by $300 million the allocation for oil spare parts and equipment, bringing the total allocation for phase VI to $600 million. I also informed the Council that the funds for such an increase were available. Regrettably, the Council took no action in this regard.

57. For phase VII, pursuant to paragraph 9 of resolution 1281 (1999), an expert was dispatched to Iraq to prepare, in consultation with the Government of Iraq, the list of spare parts and equipment needed under phase VII to enable Iraq to increase the export of petroleum and petroleum products. In my letter to the Security Council dated 14 January 2000 (S/2000/26), to which was annexed the report of the expert and the list of spare parts and equipment, I reiterated my recommendation that the Council approve the request of the Government of Iraq to increase by $300 million the allocation for oil spare parts and equipment, bringing the total allocation under phase VI to $600 million, indicating that funds were available for that purpose. For phase VII, the Government again proposed an allocation of $600 million, which was supported by the expert as reasonable, taking into account the current situation of the Iraqi oil sector. The expert noted that unless key items of spare parts and equipment were made available and commissioned within a very short time, production was likely to drop, even under a regime of severe risk management. However, in its resolution 1281 (1999), the Council again approved only $300 million for this sector.

58. The group of experts I dispatched in January 2000, pursuant to paragraph 30 of resolution 1284 (1999), noted that the condition of the Iraqi oil industry had not improved and that exports had declined from the 2.2 million barrels per day achieved in phase VI and would probably be sustained at a level of only 1.9 million barrels per day in phase VII. They estimated that a further production (and therefore export) decline of 5 to 15 per cent would occur unless the delivery of spare parts and equipment was accelerated, and that the spare parts and equipment that had arrived were insufficient to sustain production.

59. The value of investment required to repair the Iraqi oil industry is much greater than the value of investments discussed under phases IV to VII, and will inevitably increase if essential repairs and maintenance are further delayed.

60. Since sanctions were imposed against Iraq in 1990, the oil industry of Iraq has suffered seriously as a result of the absence of the required spare parts and equipment. Taking into account the production required for local consumption needs from 1991 to 1996 and production since late 1996 under the humanitarian programme, the Iraqi oil industry has produced some 5,000 million barrels of oil with virtually no investment in infrastructure repairs or maintenance. The result has been a massive decline in the condition, effectiveness and efficiency of that infrastructure, coupled with appalling safety conditions and significant environmental damage.

61. In the ensuing period, oil-bearing structures in Iraq have suffered short-term damage, which is considered to be reparable, subject to the expeditious arrival of the necessary spare parts and equipment. Increasingly, however, damage to these structures is becoming more long-term in nature, resulting in irreversible damage to oilfields and the permanent loss of production and export

capacity. It should also be noted that because certain spare parts and equipment required by the Iraqi oil industry are obsolete, complete replacement rather than repair is often necessary.

62. Since the initiation of the oil spare parts and equipment programme in phase IV (at a level based on the need to maximize the funds for the humanitarian programme), the price of oil has more than doubled. The increase in income can therefore continue to support the current level of humanitarian programmes, or indeed an increased level, while concurrently allowing a greater allocation for spare parts and equipment, which is urgently needed to support the export of crude oil on which the humanitarian programme depends. In the view of the group of experts, it is a logical investment, especially given the volatility of oil prices, which could easily return to previous low levels.

63. At the very least, therefore, the allocation of funds under phases VI and VII at the level of $600 million per phase is urgently required if production levels are to be sustained at, or even near, current levels and in order to offset permanent damage to oil-bearing structures in Iraq.

64. In paragraph 18 of its resolution 1284 (1999), the Security Council requested the Committee to appoint a group of experts, in accordance with its resolutions 1175 (1998) and 1210 (1998), and decided that the group would be mandated to approve speedily contracts for the parts and equipment necessary to enable Iraq to increase its exports of petroleum and petroleum products. The Office of the Iraq Programme has submitted to the Committee for its consideration and approval procedures for the implementation of that mandate. Once the procedures have been approved and the group of experts has been selected by the Committee, on the recommendation of the Office, lists of parts and equipment based on individual projects will be prepared and submitted to the Committee for its approval. It is expected that the implementation of paragraph 18 of resolution 1284 (1999) will expedite the approval process, which in turn will allow for more rapid delivery of the urgently needed parts and equipment for the Iraqi oil industry.

C. United Nations accounts pertaining to the Iraq programme

65. The United Nations accounts pertaining to the Iraq programme are divided into seven separate funds pursuant to paragraph 8 (a) to (g) of Security Council resolution 986 (1995). As at 31 January 2000, $740.8 million had been deposited into the account for phase VII as authorized under resolutions 1281 (1999) and 1284 (1999), bringing the total oil sale since inception to $21,476.5 million. Annex I to the present report shows the allocation of the total oil revenues among the various funds and the corresponding expenditures as at 31 January 2000. Annex II shows the number and value of the letters of credit pertaining to oil proceeds and humanitarian supplies.

Balances with BNP Paribas

66. As at 31 January 2000, the closing balance in the United Nations Iraq account with BNP Paribas was $6.2 billion. A total of $2.3 billion of the balance in the account was segregated for approved and issued letters of credit.

Approximately $3.5 billion remains available for the issuance of letters of credit as soon as contracts are approved by the Security Council Committee.

67. Included in the above balance is accrued interest of $211 million earned on the United Nations Iraq account. These funds are being used to purchase additional humanitarian supplies.

68. The concentration of funds in one bank remains an issue of concern, as was brought to the attention of the Committee on 26 January by the United Nations Treasurer. Further, as noted in previous reports, the risk of depending on a single issuer for humanitarian letters of credit is an operational vulnerability.

69. The United Nations Treasurer, in consultation with all concerned, has continued to address the concerns raised regarding the banking arrangements for the programme. As a result, delays between the issuance of Committee approval letters and the opening of letters of credit have been reduced.

III. OBSERVATION AND MONITORING ACTIVITIES

A. Inspection and authentication of humanitarian supplies

70. The inspection and authentication of the arrival of humanitarian supplies pursuant to Security Council resolution 986 (1995) and related resolutions was initiated in February of 1997 by the tendering of a contract to Lloyd's Register, which continued as the inspection agent until the end of January 1999. The authentication process began with the establishment of sites at Trebil, at the border of Jordan, at the seaport of Umm Qasr and at Zakho, on the border of Turkey. A fourth site, Al-Walid, on the Syrian border, was added to accommodate the increase in humanitarian shipments to Iraq. Subsequently, the authentication and inspection contract was awarded to Cotecna Inspection Service SA of Geneva in January 1999; Cotecna is currently the United Nations independent inspection agent for humanitarian supplies.

71. The mandate of the inspection agent includes the authentication of and reporting on the arrival of all humanitarian supplies procured with funds made available under resolution 986 (1995) and related resolutions. The agents at the borders of Iraq continue to sample and test shipments of food commodities for the purpose of verifying their fitness for human consumption. An independent laboratory in Jordan carries out blind testing of sampled shipments. Additional extensive tests, if required, are conducted in Geneva. Reductions in the time required to dispatch the samples and the subsequent receipt of the analysis reports have resulted in the expedited authentication of the arrival of goods. Requests to pursue the stationing of mobile laboratories to further speed up this process continue to be declined by the Government of Iraq. As the approved contracts continue to be complex, the inspection agent has expanded its role of authentication to include installation services and commissioning at various inland facilities in Iraq, such as electrical installations undergoing rehabilitation. In addition, Cotecna, as approved by the Security Council Committee under special authentication procedures, monitors the export and subsequent re-importation to Iraq of other goods requiring overhaul and

refurbishment, which can be done only at the service provider's location, and authenticates the delivery of the services.

72. Cotecna and the Multidisciplinary Observation Unit of the Office of the Iraq Programme continue to report a serious deterioration of the facilities at the port of Umm Qasr. Degraded discharge facilities and generally poor port conditions continue to contribute to the slow and inefficient offloading of necessary food basket items, particularly bulk foodstuffs and badly needed infrastructure spare parts and equipment. Cotecna routinely reports cargo damaged during discharge due to inadequate equipment. Outdated and damaged equipment such as forklifts continue to jeopardize the safety and well-being of port personnel. While contracts for some of the necessary items, such as tugboats and loading arms, have been approved and in some cases delivered, other badly needed equipment remains on hold. The distribution plan for phase VII, as well as previous plans, provided for the contracting of such items. In some phases, however, no contract applications were presented to the Office of the Iraq Programme, while in other phases applications for only some of the relevant items under the distribution plan were presented. One item in particular, namely a harbour dredger, was contracted for in phase VI. While harbour conditions clearly indicate the need for this equipment, this application remains on hold because of the potential for dual use, with a request for technical specifications. Cotecna recently reported that the accumulation of silt in the harbour often necessitates the offloading of cargo in deeper water. Such cargo is subsequently shuttled to the berths in smaller vessels. While improvements have been made to the offloading cranes at the berths, larger vessels are routinely unable to berth because of the low water level and are further restricted by the tides.

B. Monitoring of oil spare parts and equipment

73. In paragraph 6 of its resolution 1175 (1998), the Security Council requested me to provide for the monitoring of the necessary spare parts and equipment authorized to enable Iraq to increase oil exports to the level indicated in paragraph 2 of resolution 1153 (1998), namely, a sum not exceeding $5.2 billion. Accordingly, the Office of the Iraq Programme proceeded to establish a system to monitor and report on the arrival, storage, distribution and utilization of oil spare parts and equipment in order to ensure that such equipment was utilized for the purpose for which it was approved by the Security Council Committee. In close consultation with Saybolt, which was contracted by the United Nations for the purpose of monitoring oil spare parts and equipment, the Office established the basic principles for the monitoring system, which were subsequently approved by the Committee, in July 1998. Further to this, the Office established more detailed standard operating procedures for the efficient day-to-day monitoring of oil spare parts and equipment from port of entry and customs clearance to storage at designated sites and utilization at end-user location. The standard operating procedures were established to institutionalize monitoring and reporting procedures with a view to providing the Committee with the assurance that the oil spare parts and equipment were utilized in the manner for which they were approved.

74. Through its close interaction and liaison with Saybolt and also with Cotecna, the Office of the Iraq Programme has kept the monitoring arrangement under close and constant review in order to ensure the efficient functioning of the monitoring and reporting system. Initially, when the first shipments of spare parts and equipment began to arrive in Iraq in mid-1999, only one monitor was deployed, stationed in Baghdad. As deliveries increased, the number of monitors was increased. The total number of monitors deployed is now six. This has enabled Saybolt to meet increased workloads and to intensify field-monitoring visits throughout Iraq.

75. More recently, the Office of the Iraq Programme reviewed the monitoring and reporting system in the light of the continued increase in the arrival of oil spare parts and equipment and the gradual expansion of the number of storage and end-use sites. The objective of the exercise, undertaken in consultation with Saybolt, was to ensure that the Office continued to meet the monitoring and reporting requirements of the Committee and to improve those procedures where possible. In doing so, the Office reviewed existing procedures and sought to systematize procedures that have been developed since the inception of the monitoring system. Moreover, the Office has identified and systematized additional measures to be followed for items designated by the Committee as being of a sensitive nature and for which the Committee requires special monitoring and reporting. In undertaking this exercise, great attention has been paid to ensuring that the limited human and material resources available are applied where they are most necessary and in the most productive manner possible.

76. The functioning and efficiency of the monitoring and reporting mechanism, as well as the degree of human and material resources applied to it, will be kept under constant review by the Office of the Iraq Programme. This will assist the Office in ensuring that its relevant reporting requirements to the Committee continue to be met, namely, that the Committee receives the necessary assurances regarding the utilization of spare parts and equipment in the manner for which they were approved.

C. United Nations observation mechanism

77. Under the humanitarian programme, the total number of observers is 151, including 63 geographical observers, 75 sectoral observers working directly with the agencies and programmes concerned and a small unit of 13 multidisciplinary observers.

78. As at 29 February 2000, in the 36 months since the implementation of resolution 986 (1995), United Nations observation units had conducted observation visits throughout Iraq, as described below.

79. The Geographical Observation Unit conducted a total of 60,832 field observations covering the food (50,092), health (7,108), nutrition (341), agriculture (1,244), water and sanitation (628), education (764), electricity (61) and resettlement (594) sectors, including direct end-user/beneficiary interviews.

80. World Food Programme (WFP) international observers and local observation staff undertook a total of 667,911 observation visits, including visits to silos, mills, warehouses and food and flour agents as well as household spot checks. Spot checks were conducted on a predefined sample of food agents, flour agents and households. To date, observation spot checks covered all food and flour agents throughout the country, 12.09 per cent of all households in the centre and south of Iraq and 26.46 per cent in the three northern governorates of Dahuk, Erbil and Sulaymaniyah.

81. In the health sector, World Health Organization (WHO) observers conducted routine observations on the storage and use of health commodities. WHO conducted 10,109 observation visits in the 15 governorates in the centre and south of Iraq. Observation of the implementation of the targeted nutrition programme by the United Nations Children's Fund (UNICEF) started in November 1999. To date, UNICEF observers have conducted 482 visits to observe the distribution of targeted nutritional supplies. UNICEF observers conducted 5,017 observation visits in the water and sanitation sector. The Food and Agriculture Organization of the United Nations (FAO) conducted 3,007 observations. In the electricity sector, observers from the United Nations Development Programme (UNDP) and the Department of Economic and Social Affairs of the Secretariat conducted 917 observations to examine the quantity of goods received at end-use sites and their conformity with the specifications stated in the purchase orders. In the education sector, UNICEF and the United Nations Educational, Scientific and Cultural Organization (UNESCO) conducted a total of 1,120 and 1,147 visits respectively to observe the distribution and utilization of educational supplies in primary and secondary schools as well as in universities.

82. In addition to preparing monthly implementation reports, the United Nations observation mechanism has undertaken a wide range of surveys and has produced assessments on implementation issues of concern to the programme. These have included the WFP 1997 mission report on the observation system for the distribution of food under Security Council resolution 986 (1995), WHO studies on the countrywide availability and adequacy of medicine and medical supplies (1998) and evaluations of the impact of health cards in the centre and south (1998) and in the three northern governorates (1999). FAO undertook 10 surveys as follows: four on animal health, one on agrochemicals, three on agricultural machinery, one on the rehabilitation of the poultry industry and one on general end-user surveys. UNICEF conducted health facility-based nutrition surveys in April and October/November 1997, March and October 1998 and April 1999. In September 1998, UNICEF reviewed the nutritional rehabilitation centres in the context of the nutrition programme in the 15 central and southern governorates. In March 1999 UNICEF conducted an impact assessment for both the water and sanitation and education sectors. At the same time, UNESCO conducted a review of the Iraqi educational system from 1990 to 1996. In the electricity sector UNDP and the Department of Economic and Social Affairs have conducted statistical surveys on safety at work, electricity at the household level and the effects of the 1999 drought on the electricity sector. In October 1999 the United Nations observation mechanism undertook a comprehensive study on the consequences of holds in all sectors. This was in addition to the routine work undertaken daily in response to specific requests for information.

IV. PROCESSING AND APPROVAL OF APPLICATIONS

83. In my supplementary report I informed the Security Council that I had directed the Office of the Iraq Programme to serve as a focal point for tracking and coordinating all activities related to the preparation and approval of the distribution plan, revenue generation and allocation of funds, the processing, circulation and approval of applications, the processing of letters of credit, procurement, delivery, authentication and quality checks performed by the independent inspection agents at points of entry, as well as the distribution of supplies in Iraq (S/1998/90, para. 53 (g)). Since then, I have kept under constant review the implementation of my recommendations to the Council and its Committee and to the Government of Iraq. I have also monitored the directives addressed to the Office of the Iraq Programme as well as those addressed to other Secretariat departments and agencies and programmes of the United Nations system (ibid., paras. 49-60), as endorsed by the Council in its resolution 1153 (1998), with a view to streamlining and expediting approval procedures and to ensuring the arrival of humanitarian supplies in Iraq as expeditiously as possible.

84. Since the adoption of resolution 1153 (1998), there has been marked improvement in the speed of approvals and deliveries as well as inspections and authentication at the borders. This was in part the result of all parties concerned having gained experience with the procedures of the programme and the immediate measures taken by the Office of the Iraq Programme to implement my directives (see ibid., paras. 53-56), as well as the decisions taken by the Security Council Committee regarding its own working procedures. Nevertheless, there is an urgent need to review further the procedures related to the approval of applications with a view to reducing the excessive number of holds placed on applications, which have been affecting adversely the overall implementation of the programme, as explained in section V of the present report.

85. The Office of the Iraq Programme took immediate steps to implement all 13 of my directives contained in the supplementary report (ibid., para. 53). However, in practice there have been some difficulties in processing within two business days all applications received, owing mainly to non-compliance with the procedures of the Security Council Committee and inconsistencies with the approved distribution plan and amendments thereto. These difficulties have been compounded by the increased number of applications received during a short period of time as well as by the increasingly complex large-scale contracts; one, for example, was valued at more than $100 million. Therefore, I have taken further measures to increase the number of staff resources, including additional customs experts, available to the Office of the Iraq Programme.

86. The Office of the Iraq Programme submitted to the Security Council Committee a proposal for advancing funds for food procured and delivered to Dahuk, Erbil and Sulaymaniyah by the Government of Iraq in order to address the financing problems created by the existing system of reimbursement from the ESC (13 per cent) account to the ESB (53 per cent) account. Since the submission of that proposal on 11 February 1999, however, the Committee has been unable to reach an agreement. As at 28 February 2000, the total amount of funds awaiting reimbursement from the ESC (13 per cent) account to the ESB (53 per cent) account for food items was $122.8 million. For medicine, the total amount

awaiting reimbursement was $76.8 million. A number of other proposals submitted by the Office to the Security Council Committee in 1999 have not been acted upon by the Committee. These include procedures concerning blocks or holds on traditional applications under resolution 661 (1990), payment clauses for the ESB (53 per cent) account, draft guidelines for the work of the panel of experts to approve contracts for oil spare parts and equipment pursuant to paragraph 2 of resolution 1175 (1998) (which has been overtaken by the provisions of paragraph 18 of resolution 1284 (1999)), as well as the need to select and recruit additional oil overseers.

87. The Security Council Committee has not implemented the recommendation, as endorsed by the Council in its resolution 1153 (1998), to review annexes to the distribution plans at the outset in order to identify as early as possible those items which could be subject to "holds" and those on which further information and end-use verification are likely to be required (ibid., para. 58 (b)). In order to expedite the processing of applications placed on hold, it was recommended (ibid., para. 58 (d)) that the Committee may wish to reach an understanding that for items placed on hold, written and explicit explanations should be provided within 24 hours in order to enable the applicants to provide any additional information required. It is regrettable that the Committee has thus far not reached an understanding to fully implement these recommendations. Although the Committee approved the procedures for the delegation of approval authority to the Secretariat for foodstuffs (see ibid., para. 58 (f)), they could not be implemented in the absence of the required pricing mechanism to be submitted by the Government of Iraq. This has now been overtaken by the provisions of paragraph 17 of resolution 1284 (1999).

88. The Government of Iraq also did not implement fully the recommendation concerning the preparation of the distribution plan (ibid., para. 59), in particular the authorization given in paragraph 5 of resolution 1153 (1998). Furthermore, although a representative of the Central Bank of Iraq was dispatched a few times to New York, the Government did not deploy to New York a representative of the Bank at the appropriate level, as recommended (ibid., para. 55).

89. With few exceptions, the United Nations agencies and programmes have also failed to implement fully the recommendation that applications be submitted when most of the details of future contracts have been worked out with the respective suppliers in order to avoid submission of numerous amendments to the original applications (ibid., para. 56), mostly as a result of their procurement procedures. This will be corrected in the context of the implementation of paragraphs 17 and 25 of resolution 1284 (1999). The agencies and programmes concerned have been given until 31 August 2000 to make the necessary adjustments to their procurement procedures in order to comply fully with the provisions of paragraph 17.

90. The distribution plan remains central to the entire process of delivering timely supplies to Iraq. For each phase, the plan has become lengthier and more complex, requiring significant improvements in content and format. In my supplementary report, I recommended that the content and format of the distribution plan be significantly improved by providing, inter alia, an

indication of the priorities and interrelationship of supplies within the context of a project or activity.

91. Under the phase IV enhanced distribution plan (S/1998/446), the agriculture and oil spare parts and equipment sectors were prepared along these lines, enabling experts within the Office of the Iraq Programme and the Committee to prioritize items and establish interrelationships between them. It is recommended, therefore, that similar information be included in all sectors of the distribution plan by providing a more precise itemized list of goods and, where possible, their interrelationships, and the objectives to be achieved. It would also improve the ability of the Office to propose amendments, as necessary, to the lists of goods approved by the Committee pursuant to paragraph 17 of resolution 1284 (1999). Furthermore, it would assist in identifying certain commodities that might be placed on hold by the Committee and for which more detailed end-use information might be provided at the outset.

92. The lack of clarity and precision in the distribution plan is often reflected in the poor quality of many applications submitted pursuant to resolution 986 (1995). In order to reduce the number of applications returned by the Office of Iraq Programme to the submitting permanent or observer missions and to the United Nations agencies and programmes for failure to conform to the requirements of the programme, the Office assisted the Committee in the preparation of comprehensive revised guidelines, which were adopted by the Committee on 3 September 1999 and which are now posted on the web site of the Office (un.org/depts/oip).

93. Among other recommendations, the guidelines encourage applicants to include in their submissions the type of information often requested by members of the Committee, particularly those concerning end-use. In this connection, it is recommended that the Government of Iraq encourage applicants to attach detailed technical brochures in cases where this might prove useful in avoiding holds imposed for technical reasons. Such information will also expedite the work of customs experts within the Office of the Iraq Programme and facilitate the review of applications pursuant to resolution 1284 (1999) to determine whether items are subject to the provisions of resolution 1051 (1996).

94. In my supplementary report I drew attention to the slow and erratic pace at which humanitarian supplies arrived in Iraq. I welcome the measures taken by the Government of Iraq to impress upon its suppliers the need to submit applications within certain time-frames. Owing primarily to a clause inserted by the Government of Iraq in its contracts, the time taken for suppliers to submit contracts has decreased from an estimated average of 33.9 days under phase IV to approximately 18 days under phase VI. However, the rate at which applications are actually received is also of great importance, as delays in contracting have resulted in the erratic submission of applications, which arrive mostly at the very end of any given phase, overwhelming the processing and evaluation capacity of the Office of the Iraq Programme.

95. It is therefore recommended that the Government of Iraq take the steps necessary to ensure that contracts are signed as promptly as possible subsequent to the approval of the distribution plan for any given phase. In order for the Secretariat experts to have sufficient detail for reviewing applications to

determine whether any listed goods are notifiable pursuant to resolution 1051 (1996) as required by resolution 1284 (1999), the United Nations agencies and programmes are being informed by the Office of Iraq Programme that in future they will be required to attach contracts to their applications.

96. The mechanism developed by the Office of the Iraq Programme for the submission of line-item data in electronic format on diskette remains vastly underutilized. Given the fact that applications have increased greatly in length and technical complexity, and that this mechanism reduces the very time-consuming process of manually entering thousands of lines of data to a matter of seconds, it is recommended that all permanent and observer missions encourage the suppliers of their respective countries to maximize the use of the electronic format, a template of which is available on the web site of the Office.

97. The Committee thus far has provided no guidance on the urgent matter of payment clauses that was raised by the Office of the Iraq Programme in a paper presented to the Committee on 7 July 1999. A preliminary response from the Committee indicating that retention clauses were not allowable under the governing documents of the programme led to amendments in more than 150 contracts and their subsequent circulation to the Committee, while 33 applications containing such payment clauses remained uncirculated. However, the Committee has yet to reach a decision concerning other types of payment clauses, notably deferred automatic payment clauses and performance bonds. The Committee is encouraged to renew its efforts to reach consensus on this matter.

98. Paragraph 17 of resolution 1284 (1999) directs the Security Council Committee to approve, on the basis of proposals from the Secretary-General, lists of humanitarian items, including foodstuffs, pharmaceutical and medical supplies, basic medical and agricultural equipment and basic or standard educational items. As a result, supplies of items on the lists approved by the Committee will no longer be submitted to the Committee for its approval, except for items subject to the provisions of resolution 1051 (1996).

99. Under cover of a letter dated 15 February 2000 addressed to the Chairman of the Committee, the Executive Director of the Iraq Programme formally submitted the draft lists of foodstuffs and educational items as well as the draft procedures to be employed by the United Nations Secretariat for the implementation of the relevant provisions of paragraphs 17 and 25 of resolution 1284 (1999) for the Committee's consideration and approval. The draft procedures to be employed by the Secretariat for the implementation of those provisions were also shared with the members of the Committee. In response, in a letter dated 22 February, the Chairman of the Committee informed the Executive Director that the lists of foodstuffs and educational items had been approved, with the exception of some items specifically mentioned by two members. Accordingly, revised lists, as approved by the Committee, have been prepared by the Office of the Iraq Programme and circulated to the members of the Committee and to all permanent and observer missions. The approved lists have also been posted on the web site.

100. As from 1 March 2000, the Office of the Iraq Programme has been reviewing applications concerning items on the approved lists for foodstuffs and

educational items pursuant to paragraphs 17 and 25 of resolution 1284 (1999). The letter authorizing eligibility for payment for applications determined not to require circulation to the Committee for approval will be signed by the Executive Director of the Iraq Programme and will be deemed equivalent to a letter of approval by the Chairman of the Committee.

101. The Executive Director of the Iraq Programme, under cover of a letter dated 3 March 2000 addressed to the Chairman of the Committee, formally submitted the draft lists of pharmaceutical and medical supplies, as well as basic or standard medical and agricultural equipment, for the Committee's consideration and approval.

102. I consider the above lists, although not exhaustive, to represent a good start in implementing paragraph 17 of resolution 1284 (1999), and they should remain under constant review to allow for expansion of the number of items listed under each category. The Office of the Iraq Programme will submit to the Committee on a regular basis lists of additional items for its consideration and approval.

103. As agreed by the Committee, effective 22 February 2000 the Office of the Iraq Programme began submitting applications to the Committee in line with the directive of the Security Council that the Committee take a decision on all applications in respect of humanitarian and essential civilian needs within a target of two working days of receipt of those applications (resolution 1284 (1999), para. 25). In this regard, the Office has taken measures to ensure that members of the Committee receive all applications by the beginning of the first day of the two-day period to allow the full time allocated for the Committee's review.

104. In an effort to minimize the number of applications on hold, and in addition to the measures discussed above, I have asked that in consultation with technical experts in the field, the Office of the Iraq Programme further intensify its efforts to identify the items that would have a significant impact on enhancing programme delivery. In addition, the Office has been requested to take the measures necessary for observation with a view to giving assurance to the members of the Committee that the items concerned are fully utilized for approved purposes. The Office will continue reporting regularly to the Committee on trends in the imposition of holds and on programme-based reasons for releasing holds, as in the case of drought-related items.

105. The Office of the Iraq Programme will also intensify its efforts to provide information to the Committee on the complementarity of items not only within a single sector, but also between sectors, so that the wider impact of holds, particularly as concerns electricity, transport and telecommunications, is more fully understood. The Office, in consultation with the agencies and programmes concerned, will continue to provide information to the Committee on the impact of holds on applications in the implementation of the programme with a view to encouraging members of the Committee to lift such holds.

106. The Office of the Iraq Programme made the necessary arrangements to enhance the capacity of the independent inspection agents for humanitarian supplies to authenticate and provide quality control of commodity flows into Iraq and to

ensure that they report to the Office of the Iraq Programme and to the Office of the Humanitarian Coordinator for Iraq in Baghdad on the authentication of the arrival of supplies within 24 hours. Except in cases where further testing is required, the inspection agents have generally met the standard. To further expedite authentication, the Office of the Iraq Programme has posted on its web site an electronic template for a standardized packing list that organizes shipping data in a format parallel to that used by the Office to provide data to the inspection agents. In addition, the Office has accorded high priority to finalizing the development of a system to allow electronic transmittal of authentication data to replace the present costly system of sending several thousand faxes to the Office each week.

107. The Office of the Iraq Programme organizes briefings as necessary for all interested representatives of the permanent and observer missions on the rules and procedures of the Security Council Committee, as well as on the procedures for the preparation and submission of applications. The Office has also been organizing on a regular basis informal briefings for members of the Security Council Committee informing them of progress made in the implementation of the programme. Once the Committee has approved the lists of humanitarian supplies pursuant to paragraph 17 of resolution 1284 (1999), there will be a special briefing to acquaint permanent and observer missions and the United Nations agencies and programmes on the new procedures. The Office has also been briefing the Committee on customs evaluation, authentication and inspection procedures and the functioning of the United Nations observation process in Iraq, as well as the monitoring mechanism for oil spare parts and equipment that have been delivered to Iraq.

108. Pursuant to a directive contained in my supplementary report (S/1998/30, para. 53 (h)), a project to develop a comprehensive integrated management information system for the Office of the Iraq Programme has been finalized. The system is being established to provide timely, authoritative information on the progress of each application. This will involve, inter alia, the harmonization of the oil-for-food programme database in New York with those in Iraq, which will ensure data integrity between them.

109. On a number of occasions some suppliers have shipped goods to Iraq without the requisite issuance of a valid letter of approval from the Committee. The Office of the Iraq Programme has informed the suppliers concerned, through their respective permanent missions, that unless the Committee decides otherwise, they will not be paid through the United Nations Iraq account. In order to address the situation, the Office has established a policy whereby the name and relevant details of the suppliers in question will be maintained on a list, and the respective permanent missions of such suppliers will be notified and requested to ensure that there will be no such future violation of relevant Security Council resolutions. The Committee will also be kept informed of the list of suppliers concerned.

110. As stated previously (ibid., para. 52), the processing capacity of the Office of the Iraq Programme has been enhanced in response to the dramatic increase in the size and complexity of the programme. The number of customs experts has been increased from two in February 1998 to 11 in March 2000. The recruitment of additional support staff has also been authorized. The staffing

capacity of the Office will, however, need to be kept under close review as a further dramatic increase in workloads is expected once paragraphs 17, 18 and 25 of resolution 1284 (1999) are fully implemented.

V. PROGRAMME IMPLEMENTATION: EFFECTIVENESS, EQUITABILITY AND ADEQUACY

A. Expansion of the scope and the funding level of the programme

111. Pursuant to the relevant provisions of Security Council resolution 986 (1995), the scope and funding level of the humanitarian programme were limited, and in phases I to III, both the commodities imported and all related activities reflected this understanding. However, by the end of phase II, in December 1997, it had become apparent that the programme, as constituted, could not prevent the continued deterioration in the health and nutritional status of the population.

112. In paragraph 6 of its resolution 1143 (1997) of 4 December 1997, the Security Council welcomed my intention (see S/1997/935, para. 90) to submit a supplementary report and expressed its willingness, in the light of my recommendations, to find ways of improving the implementation of the programme and to take such action over additional resources as needed to meet the priority humanitarian requirements of the Iraqi people, as well as to consider an extension of the time-frame for the implementation of the resolution.

113. My supplementary report submitted to the Council on 1 February 1998 (S/1998/90), identified a range of inputs that were additional and complementary to those included in the distribution plans for phases I to III in an effort to increase the efficiency of the programme and the adequacy of resources for identified humanitarian needs. These were presented in the form of detailed interlinked project proposals with estimated costs. This approach allowed me to provide an indication of the magnitude of the requirements, to the extent that they could be determined at the time. I also identified a minimum level of financial resources required to address these needs in an effective, targeted manner.

114. As stated in my supplementary report, although the Government of Iraq was provided with the detailed terms of reference for both the programme and process reviews in connection with the preparation of the report and was requested to assist in and contribute to both reviews, the programme review was carried out without formal inputs from the Government of Iraq (ibid., paras. 3 and 4). As also stated in my report, the programme review had focused exclusively on the humanitarian requirements and therefore did not tie its recommendations to a notional oil-pumping capacity, which could not be verified (ibid., para. 65). Furthermore, although the draft of the present programme review was submitted to the Government, the Secretariat has not received comments from the Government.

115. In line with the recommendations contained in my supplementary report, the Council, in its resolution 1153 (1998) of 20 February 1998, substantially increased the scope of the programme and increased the funding available to it from $1.3 billion to $3.4 billion per phase. Furthermore, the resolution

provided support for improved distribution of humanitarian supplies, with a view to accelerating the pace of implementation, and sought to provide for sufficient infrastructure rehabilitation to ensure effective utilization of inputs imported under the programme. In addition, the Council endorsed the intersectoral approach to the implementation of the programme, and the continuous improvement in programme administration and observation assessment was made integral to the programme. The Council also endorsed my recommendations concerning the procedures for the processing and approval of contract applications.

116. My recommendations included increases in the allocations for the food basket from $870 million to $1.4 billion; for the supplementary and targeted feeding programme from $10 million to $90.9 million; for the health sector from $210 million to $776.8 million; for agriculture from $50 million to $402.1 million; and for water and sanitation from $44.2 million to $365.2 million.

117. Owing to the substantial fall in the price of oil, however, not all the recommendations, as endorsed by the Security Council, could be implemented in their entirety. It may be recalled that at the start of the programme, in December 1996, the price of a barrel of Iraqi oil was about $18, dropping precipitously to about $8 during phases IV and V. Thus the target revenue authorized by the Council in its resolution 1153 (1998) could not be achieved during those phases, and the total shortfall in revenue for humanitarian purposes exceeded $2.2 billion. Accordingly, by its resolution 1266 (1999), the Council authorized raising the revenue ceiling by up to $3.04 billion to address the deficit, in addition to the $5.2 billion already authorized, in order to provide the humanitarian programme with the revenues authorized but not generated under resolutions 1153 (1998) and 1210 (1998). Even then, however, despite the increase in oil exports and in the price of oil, the humanitarian deficit totalled $1.3 billion. At the start of phase VII in early December 1999, the humanitarian deficit for previous phases totalled $954 million.

118. In addition, the distribution plans introduced activities that had not been anticipated in my supplementary report. Thus, for instance, in phases IV to VI, $900 million was authorized for oil spare parts and equipment and, in phases V and VI, the Government budgeted $205.7 million for infrastructure support, including telecommunications, with an expansion of $472.9 million being foreseen for food handling and for transportation and logistics.

119. Given additional revenue of only $2 billion in phase IV and $2.5 billion in phase V, the total financial target set out in my supplementary report was met only in phase VI ($4.5 billion). Therefore, the real effects of the enhanced distribution plan for phase VI have yet to be realized.

120. Furthermore, in addition to revenues being lower than envisaged, in drawing up successive distribution plans the Government of Iraq did not accord the same priority to sectors as those recommended in my supplementary report. As a result, funds allocated to the health sector dropped from $210 million in phase III to $163.5 million in phase IV, and rose to $219 million in phase V and to $309 million in phase VI. Similarly, the water and sanitation, agriculture and education sectors reached or exceeded the level envisaged only in phase VI.

By contrast, electricity exceeded the proposed distribution plan allocation in all three phases; its phase VI allocation of $564 million represents a 16-fold increase compared with $35.5 million in phase III.

121. In its resolution 1284 (1999) the Security Council responded to concerns that the underlying weaknesses in the implementation of resolutions 986 (1995) and 1153 (1998) had not been adequately addressed and that, consequently, the improvements in the humanitarian situation had been below expectations. In its resolution 1284 (1999), the Council removed the ceiling for revenues earned from oil exports, allowing Iraq to export oil to its maximum capacity. With the present substantial increase in the price of oil and the improvements authorized by the Council for programme implementation, the programme should have the funds necessary to attain its objectives in a more satisfactory manner, subject to the full cooperation of all parties concerned, in particular in the review and approval of applications.

B. Implementation of the programme in central and southern Iraq

Food

122. Given that the nutritional status of the Iraqi population was below the WHO population-weighted food energy requirement of 2,210 kilocalories per person per day, in my supplementary report I recommended a threefold response, balancing the need for an enhanced food basket, increased food production and a targeted supplementary and therapeutic feeding programme for the severely malnourished and vulnerable groups (see S/1998/90, paras. 29-34).

123. Thus, a food basket target of 2,463 kilocalories and 63.6 grams of protein per person per day was recommended, with a view to meeting the immediate nutritional needs of the Iraqi population; an expansion in poultry production was envisaged in order to provide greater access to animal protein outside the food basket; and additional inputs for vegetable and fruit production were intended to boost the range of available micronutrients, vitamins and minerals.

124. For those with little or no access to foodstuffs except those provided in the food basket, I recommended the establishment of a supplementary feeding programme in the 15 governorates. In addition, a therapeutic feeding programme was recommended to ensure the early identification and rehabilitation of 30,000 severely and 700,000 moderately malnourished children under the age of five. Finally, I recommended a pilot programme through which supplementary food could be provided to schoolchildren.

125. During the period under review, the funding shortfall was compounded by other deficiencies in the implementation of the distribution plan. As an example, the nutritional level of the food basket envisaged in my report was not achieved, largely as a result of shortfalls in pulses and dairy products due to under-contracting by the Government of Iraq and poor supplier performance during the period from June 1998 to December 1999. However, overall, the effects of the shortfall were minimized by the Government, which complemented the basket from its own stocks. These advances were reimbursed in kind.

126. Against a target of 2,463 kilocalories and 63.6 grams of protein per person per day, on average the distribution plans for phases IV to VI budgeted for a basket of 2,180 kilocalories and 50.77 grams of protein. In spite of this, during this period the nutritional value of the distributed basket did not exceed, on average, 1,993 kilocalories and 43 grams of protein. Whereas prior to the start of the implementation of resolution 986 (1995) the Government had distributed a basket of some 1,300 kilocalories per person per day, the distribution plan increased this target to 2,030 kilocalories and in June 1998 to 2,300 kilocalories, though this level was not achieved.

127. The introduction of dairy products increased the amount and quality of protein in the basket. Similarly, the inclusion of weaning cereal has partially addressed the concerns of United Nations agencies at the inappropriateness of infant formula as the only foodstuff provided for infants.

128. Food prices on the open market have generally stabilized since the implementation of resolution 986 (1995). However, the majority of the Iraqi population spends a significant proportion of its income on purchasing food to supplement the rations, and although the Government provides additional subsidized foodstuffs to various beneficiary groups, distribution is irregular and the prices charged are beyond the reach of most Iraqis.

129. In this context, I regret that the Government has not included supplementary feeding programmes for those most in need, as had been recommended in my supplementary report, in any of the subsequent distribution plans, i.e., phases IV to VII. Similarly, the targeted nutrition programme suffered a very slow start-up. Although funding had been available since phase IV (30 May to 25 November 1998), it was not until late in phase VI (31 October 1999) that contracts amounting to two thirds of the distribution plan allocations were submitted for phases IV to VI.

130. However, there have been improvements, and the final contract necessary to reach the total required quantity of targeted nutritional supplies was submitted on 26 January 2000, bringing the total to $27.4 million for phases IV to VI. Supplies are now being distributed and observed by the United Nations. I am also pleased to note that, in its distribution plan for phase VII, the Government has made provision for more effective programme support in regard to logistics and infrastructure, valued at some $18.5 million.

131. Food, medicines and medical supplies for the whole of Iraq were provided under a bulk purchasing mechanism. As at 31 January 2000, over 13 million tons of food basket items valued at $4.4 billion (out of the total $5.4 billion value of approved applications) had reached the country for distribution to a total population calculated by the Government in phase VII to be 24.7 million people.

132. As at 31 January 2000, the total value of holds on applications for food was $5.8 million. Out of the total value of $639.7 million of applications submitted under the food-handling and food-processing subsector, the total value of applications approved was $308.8 million of which items with a total value of $219.7 million had reached Iraq. The total value of applications placed on hold is $185.5 million.

Health

133. In order to prevent further deterioration in the health status of the population throughout Iraq, I recommended in my supplementary report a substantial increase in the scale and scope of inputs, with a view to expanding public health care in both quantity and quality (ibid., paras. 35-37).

134. Such an increase would have made it possible to provide a sufficient and regular supply of medicines and medical supplies; efficient distribution and storage systems; infrastructure rehabilitation for a significant proportion of public health facilities at the primary, secondary and tertiary levels, as well as training of health-care personnel at all levels.

135. At the same time, however, it was recognized that health interventions, on whatever scale, required complementary inputs also in other sectors to ensure their effectiveness and to address underlying causes of poor health conditions. Thus, in the water and sanitation sector, in addition to adequate treatment of drinking water for the urban and rural population, improved distribution and sanitation networks were envisaged to reduce the risk of water-borne disease.

136. In the health sector, the increased arrival of supplies during phases IV to VI meant that the range of treatment expanded, such as the nearly fourfold increase in x-ray examinations. Likewise, as drugs became more widely available at all levels of health facilities, patient attendance increased by 46 per cent, and some 90 per cent of the essential drug needs of hospital in-patients were met. In addition, the distribution rate of medicines, medical supplies and equipment has steadily increased.

137. The above-noted significant improvements notwithstanding, I remain seriously concerned at key aspects in the provision of health care; improvements in neither the distribution of health care nor in the health infrastructure envisaged in my supplementary report have materialized. Erratic, the uncoordinated arrival of drugs to treat chronic disease has prevented the monthly requirements of all patients from being met, which may have contributed to the increase in deaths attributable to cardiac, diabetic, renal and liver disease reported by the Ministry of Health for the period from January to August 1999.

138. Acute respiratory infection likewise remains a major public health issue. A recent official survey revealed the need to greatly improve staff training to meet acceptable professional standards. Of all cases of acute respiratory infection, 16 per cent had pneumonia and 7 per cent had other severe illnesses. The study also reveals that no more than 1 child in 10 was being correctly treated, and that only 9 per cent of pneumonia cases were correctly treated. Similarly, a mere 4 per cent of children were systematically checked for danger signs. The survey also found that only 17 per cent of health workers had received adequate training.

139. A household survey of vaccination showed poorer coverage in certain categories than in 1994: delays in the arrival of vaccines under the programme, as well as lengthy quality control procedures, interrupted the immunization campaigns.

140. In the year before programme implementation began, the Government had imported medicines worth an estimated $50 million. As at 31 January 2000, health commodities valued in excess of $1.049 billion had been approved by the Security Council Committee, and supplies worth just under $803 million had arrived since the beginning of the programme, of which items worth some $567 million had been distributed to end-users throughout Iraq. The remaining medical supplies and equipment that have been delivered are either undergoing quality control procedures or are in warehouses. The total value of supplies still pending arrival under approved applications is $246 million. The total value of applications placed on hold as at 31 January 2000 was over $148 million.

Agriculture

141. I am pleased to report that in the agriculture sector many of the main recommendations contained in my supplementary report (ibid., para. 38) were initiated in the period under review. These include the poultry programme, greater irrigation inputs and enhanced support for fruit and vegetable production. In some cases, however, results have remained below target for different reasons. For instance, as a result of the foot-and-mouth disease epidemic and drought in 1999, funds had to be redirected from planned projects to meet those emergencies.

142. Similarly, in my supplementary report I identified the need for increased veterinary inputs in agriculture, not only to safeguard livestock production, but also to reduce the spread of vector-borne disease to humans. This in turn required the restoration of many state veterinary services, effective vaccination and epidemic control measures, particularly for foot-and-mouth disease, old-world screwworm and brucellosis.

143. Supplies worth $279.9 million had arrived as at 31 January 2000. Additional supplies are expected to arrive in Iraq under approved applications with a total value of $180.4 million. In 1999 some 49,000 tons of poultry broiler meat and over 188 million table eggs were produced using programme inputs. The vegetable cultivation area increased from some 310,000 hectares in 1997 to 375,000 hectares in 1999. During the same period, over $23 million worth of veterinary supplies and $121.2 million worth of agricultural machinery and irrigation inputs had arrived.

144. Programme inputs have helped to slow down the rate of deterioration of local food production, but were not sufficient to increase production at the national level. For example, although nearly all the planned farms were reactivated, egg production in 1999 fell below 10 per cent of the target. Yet, if measured in per capita terms, this still represented an increase from 1.2 to 10 eggs per year in the 15 governorates of the centre and south of Iraq.

145. Although the critical importance of the timely arrival of complementary inputs in the agriculture sector was stressed in my supplementary report, improvements in that regard have not yet been realized in practice. This has hampered fruit and vegetable production and the poultry programme as well as the veterinary services responsible for livestock vaccination.

146. In general, implementation of the programme in the agricultural sector was constrained by a lack of proper prioritization in the preparation of distribution plans, insufficiently coordinated contracting and submission, a large number of contracts on hold (as at 31 January, 90 contracts valued at $175.3 million were on hold), delayed arrivals and a lack of complementary items. That notwithstanding, although they were limited in volume, the distribution of irrigation inputs was efficient and equitable.

Water and sanitation

147. The overall situation in the water and sanitation sector has seen very little improvement over the past two years that can be ascribed to programme inputs, and this is for mainly two reasons: the insufficient level of funds in phases IV and V, $40 million and $127 million respectively, compared with my recommendation in my supplementary report of $290 million, and the high value of contracts on hold (as at 31 January, $95.6 million).

148. As at 31 January, $87.8 million worth of chemicals, supplies and equipment for water and sanitation had arrived in Iraq, including over 3,000 pumps to be delivered to over 800 locations for both water and sewage handling. As a result, compared with 1997, Ministry of Health bacteriological analyses in 1999 showed drops of between 20 and 90 per cent in contamination in all but 2 of the 15 governorates. The arrival of additional approved supplies with a total value of over $245 million is still pending. The total value of applications placed on hold was over $95.6 million.

149. Programme implementation has also been constrained by the absence of effective planning, delayed and uncoordinated arrival of supplies, insufficient skilled labour and inadequate local implementation budgets. The erratic electricity supply and the drought were likewise major problems. As a result, programme inputs have been able neither to increase the availability of drinking water nor to prevent continued leakage and associated contamination of the network. The water authorities were unable to provide service to some seven million inhabitants, mainly in rural areas.

Education

150. As in other sectors, the proposals for education contained in my supplementary report provided for more effective distribution of inputs and a major investment in infrastructure in order to improve the physical environment in which the inputs were to be used. I had observed that such initiatives were essential in creating an acceptable teaching and learning environment and improved school enrolment.

151. As at 31 January, over $49 million worth of educational supplies had arrived, of which supplies valued at $21 million had been distributed to schools and supplies worth nearly $13 million had been distributed to universities and colleges. The total value of supplies still pending under approved applications is $90.1 million. The total value of applications placed on hold was $46.3 million, involving mostly computers, generators and specialized equipment.

152. In the education sector, limited funding in phases IV and V focused efforts on the procurement of school supplies and furniture rather than on the rehabilitation of school facilities and infrastructure. Consequently, the majority of school facilities do not provide an appropriate teaching and learning environment.

153. Despite the fact that the quantity of inputs provided was insufficient to meet identified needs, it should be recognized that primary and secondary education has become dependent on imports obtained through the programme, simply because many categories of supplies and equipment cannot be procured locally.

154. A similar situation exists in higher education, where emphasis has also been on the procurement of maintenance, office and sports supplies, furniture and equipment, with similar inadequate results. The education sector has encountered the same constraints as all other sectors for which a major rehabilitation effort was envisaged in my supplementary report.

Electricity

155. In my supplementary report (ibid., paras. 26-28), I stated that reliable power generation and distribution underpinned health- and nutrition-related initiatives in all sectors, and I consequently made provision for immediate rehabilitation of generation units and maintenance of the sector's infrastructure. Because the scale of the problems and resources required to address them was beyond those of any other part of the distribution plan and could not be satisfactorily met within the framework of the programme, I invited the Security Council to consider the matter separately.

156. Although the total allocations under phases I to VI for the electricity sector ($1.12 billion) are second only to allocations for the food sector, and the installation rate in that sector (96 per cent of the value of goods delivered) is the highest rate of implementation in the programme, the deterioration of the network continued for two main reasons. First, the scale of inputs required was significantly greater than for other sectors, and second, as at 31 January, applications valued at $488 million were on hold. This has had a marked impact in delaying the completion of maintenance work, since priority necessarily continues to be given to the installation and repair of equipment in response to emergencies. As at 31 January, the total value of applications received was $1,346 million. Out of the total value of applications approved ($526.4 million), supplies with a value of $241.3 million had reached Iraq, with supplies valued at $285.1 million under approved applications awaiting delivery.

157. As a result, the electricity supply remains precarious, subject to seasonal variations, and it is not possible to reduce the increasing gap between supply and demand. Power cuts lasting 9 to 18 hours a day persist for the great majority of consumers. According to an official survey in August/September 1999, the total power shortage stood at 2,300 megawatts, reflecting in part reduced hydroelectric generation caused by the drought.

Telecommunications

158. In its enhanced distribution plan in phase IV, the Government of Iraq submitted proposals for telecommunication projects. In order to assess the justification for the projects in the context of the delivery of humanitarian supplies and the technical scope of the proposals, I recommended that a joint technical review be conducted between United Nations experts and the relevant technical ministries in Iraq. United Nations experts undertook three studies (in August 1998, March 1999 and May 1999) in conjunction with the telecommunication authorities in Iraq.

159. Following completion of the review, I informed the Security Council, in a letter dated 13 May 1999 (S/1999/559), that I had approved the proposals for phase V submitted by the Government of Iraq. In order to implement the programme on behalf of the Government in the three northern governorates of Iraq and to undertake United Nations sectoral observation activities in the 15 central and southern governorates, the United Nations has designated the International Telecommunication Union as the responsible agency in this regard.

160. As at 31 January, applications for 27 contracts valued at $140.6 million had been submitted for phases V and VI. Of those, 92.2 per cent and 100 per cent of the applications circulated to the Security Council Committee were on hold for phases V and VI respectively.

C. Programme implementation in the governorates of Dahuk, Erbil and Sulaymaniyah

161. In the three northern governorates of Dahuk, Erbil and Sulaymaniyah, where the United Nations implements the programme on behalf of the Government of Iraq, the project approach recommended in my supplementary report was adopted by the United Nations agencies and programmes (see S/1998/90, paras. 41-48).

162. In my report I emphasized the need to improve the rate of resettlement of internally displaced persons, as well as to address deterioration in the electricity, water and sanitation and agriculture sectors. It also called for marked improvement in the nutrition, health, education and mine-action sectors. In the three northern governorates, United Nations agencies have also been able to provide resources on a vastly larger scale than in the past, when they were dependent on donor contributions.

163. By and large, these priority objectives were respected in the distribution plans for phases IV to VI. The important allocation to the electricity sector was a notable deviation in project funding, resulting in a shift of funding levels below phase III for other sectors, namely, health, water and sanitation, agriculture and education.

Food

164. Under the programme, the Government of Iraq's food ration was extended for the first time since 1991 to the entire eligible population of over 3 million people, and a total of nearly 1.8 million tons of food ration commodities,

valued at over $611 million, was delivered to WFP for distribution. Furthermore, as part of its activities related to nutrition, over 52,000 tons of foodstuffs were purchased by WFP for supplementary feeding programmes for supporting vulnerable families, groups and social institutions. An indicator of the success of the supplementary feeding programme is the decreasing beneficiary caseload, which fell from 258,995 to 80,575 between phases IV and VI.

165. To improve the nutritional status of the population, specific focus was placed on enhancement of the food basket, targeted nutrition and food production, as well as growth promotion and the early detection of malnutrition among children under the age of five. As stated above, I am pleased to note that these objectives have to a large extent been met, as indicated by the significant drop in acute malnutrition and the decrease in chronic malnutrition.

166. UNICEF has been able to expand greatly its targeted nutrition project in primary health-care units and community child care units because of the inputs provided by the programme. As a result, nutritional surveys have shown a reduction in acute malnutrition in children under five years of age from 3.1 per cent in 1997 to 1.8 per cent in 1999. In the same period and for the same age group, chronic malnutrition fell from over 30 per cent to about 18 per cent.

167. Progress in plant and animal production has increased the availability and variety of foodstuffs, contributing to the improvement in nutritional status by making food more affordable. The reduction in the beneficiary caseload for the supplementary feeding programme for vulnerable groups, as referred to above, indicates a significant improvement in the nutritional status of the beneficiaries.

Health

168. Overall implementation in the health sector has improved, with a marked increase in the availability of consumables and intravenous fluids. Full courses of drug treatment are now being provided for chronic illnesses through pharmacies and hospitals. However, the objectives for the provision of medicines and medical supplies, procured in bulk by the Government of Iraq, have not been met in full. This is due partly to the fact that local health information systems remain largely ineffective in identifying priority requirements.

169. Recent surveys indicate that almost all primary health centres are now fully functional and that the number of centres offering specialized services, such as immunization and maternity care, has increased. In line with the global effort to eradicate polio, over half a million children under five years of age (95 per cent of the target) were immunized in six successive rounds. Nearly all the biomedical equipment that has been delivered has been installed. The rehabilitation of several warehouses has increased the capacity of safe and adequate storage, while repairs to health facilities have improved health care standards.

170. Waterborne diseases have been contained because of increased access to safe drinking water, better waste disposal and continuing epidemiological

surveillance. At present, 80 per cent of the rural population has access to safe drinking water, compared with only 60 per cent three years ago.

171. As at 31 January, medicines and medical supplies and equipment distributed in the three northern governorates amounted to $56.2 million. In addition to supplies procured through bulk purchases by the Government of Iraq, equipment valued at $35.4 million had been delivered out of $60.9 million worth of applications already approved. The total value of applications placed on hold, as at 31 January, is $1.1 million.

Agriculture

172. In the agriculture sector, the implementation of the programme has led to major improvements. I am pleased to report that a number of planned projects have been fully implemented, with some even exceeding the targets set in my supplementary report. Small-scale poultry farms (420) have been rehabilitated, resulting in a total production of over 6 million chickens per batch, causing a 60 per cent drop in the price of live chickens compared with prices before the start of the programme. The programme has also enhanced the productivity of local cattle and small ruminants, with livestock losses dropping by 80 per cent.

173. The rehabilitation of the forestry infrastructure included the establishment of eight nurseries, which produced 3.2 million seedlings. The reforestation of 2,250 hectares of land has been progressing well. These projects are intended to arrest environmental degradation caused by the exploitation of forests because of the shortage of other fuel sources.

174. I am pleased to report that three agro-processing plants have been completely rehabilitated and are producing tomato paste, fruit juice concentrate, dairy products and vegetable oil. However, several projects related to the rehabilitation of facilities for agricultural services, such as training and extension, have been only partly implemented. Furthermore, some activities, notably in the veterinary subsector, were limited by delays in procurement, lack of diagnostic abilities, late deliveries of vaccines and inadequate transport of supplies to the north. Frequent interference by the local authorities has also disrupted the smooth implementation of certain projects, and some could not be implemented because of the transfer of funds for emergency drought relief. The provision of water, animal and poultry feed as well as additional drugs and vaccines to the most drought-stricken areas averted a major crisis.

175. As at 31 January, supplies for agriculture, with a total value of $117.5 million, have been delivered to the three northern governorates. The arrival of additional approved supplies with a total value of $38.2 million is still pending, and the total value of applications on hold is $761,311.

Water and sanitation

176. As a result of requirements not foreseen at the time of my supplementary report, several construction projects were curtailed in order to meet more urgent needs. These included the repair and replacement of a large number of

pumps and additional supplies of water treatment chemicals to ensure the uninterrupted supply of safe water.

177. In the water and sanitation sector, water leakage and contamination has been reduced in the distribution networks, benefiting more than 700,000 people. Close to 900 rural water projects have benefited a further 290,000. Overall, projects have reached approximately one third of the population of the three northern governorates. In addition, community and household latrines have been built for 80,000 people.

178. Increasingly effective monitoring and surveillance in urban and semi-urban areas have improved water quality control and led to a reduction in the level of bacterial contamination, which is especially noticeable in the three major urban areas. Renovation and rehabilitation of existing water quality control laboratories and training of personnel will also contribute to this goal.

179. Overall progress, however, has been hampered by delays in the approval of contracts for the procurement of chemical reagents for water quality analysis; in turn this has also led to the non-utilization of equipment procured for water quality analysis. The reduction of contamination levels in the three major cities in the north has also been slowed by the erratic and severely limited power supply experienced during the recent drought.

180. As at 31 January, water and sanitation supplies with a total value of $57 million had been delivered to the three northern governorates. The arrival of additional approved supplies with a total value of $40 million is still pending. The total value of applications placed on hold is $154,216.

Education

181. In the education sector, the rehabilitation of schools and the provision of basic materials have resulted in some improvements in the teaching environment and have led to an increase in enrolment rates at both the primary and secondary levels. Although more than 1.5 million textbooks have been printed - a fourfold increase compared with annual production prior to the implementation of the programme - the relatively limited number of textbooks available remains a major constraint. The provision of additional textbooks has been delayed for an unacceptably long period of time because of the late procurement of printing materials and operational deficiencies in the public printing facilities in Baghdad.

182. An indication of achievements realized from phase IV to VI is that between the 1997/98 and the 1998/99 school years, secondary school enrolments increased by more than 43,000 children. Progress in the education sector has suffered, however, because of the limited expertise of the local authorities in the area of planning, but also because of insufficient coordination between the United Nations agencies concerned. The matter is being reviewed with the agency headquarters concerned in order to resolve the difficulties encountered.

183. As at 31 January, supplies for the education sector with a total value of $40.6 million had been delivered to the three northern governorates. Educational supplies worth over $37.3 million have been distributed to end-

users. The arrival of additional approved supplies with a total value of $24.5 million is still pending. The total value of applications placed on hold is $706,883.

Electricity

184. As highlighted in my supplementary report, the electricity sector was in urgent need of a strategic survey to assess network capacity, transmission and distribution systems and generation capacity (see S/1998/90, para. 46). This study was undertaken and provided the basis for a plan to refurbish and restore generation to a level sufficient to meet the needs of the three northern governorates.

185. Furthermore, with the introduction of direct execution, UNDP has delegated managerial responsibility for project implementation to its office in Erbil, under a programme director with an engineering staff of some 42 international and 125 local staff. A procurement office has been established in Amman to initiate all procurement action related to the electricity projects.

186. As recommended in my supplementary report, the structural repair and rehabilitation of the hydropower stations at the Derbendikan and Dokan dams was begun. Both projects were subject to extensive delays, however, due to managerial and contractual difficulties. Nevertheless, since only a portion of the recommended funding was required to undertake the projects proposed in my supplementary report, the balance of funds has been used to implement a series of other projects, including the installation of generation plants in each of the governorates, the upgrading of the transmission network and a full-fledged rehabilitation programme for the distribution network.

187. Notwithstanding the progress outlined above, the benefits of the projects have yet to be felt by the population. This is due to the drought and the preventive nature of dam rehabilitation and also because in such a relatively short period of time an increase in the generation capacity of the network could not be achieved. This is compounded by long lead-times involved in the manufacture, delivery and installation of electrical equipment as well as the absence of the engineering data necessary to ensure compatibility with countrywide standards and specifications.

188. In this context, it is regrettable to report that despite several requests that the Government of Iraq release essential data, these efforts have not been successful. Reconnection to the national electricity grid is technically the most efficient way to address the power supply shortage in the northern governorates because of the financial and logistical implications in providing sufficient fuel to generate power. This alternative requires that generation capacity in the centre and south be significantly expanded.

189. In this regard, on several occasions the local authorities have indicated that they would be prepared to accept reconnection to the national grid, provided that the United Nations, through the programme, supplied alternative sources of power to ensure that the electricity requirements of the three northern governorates were met on a reliable and continuing basis at all times.

190. As at 31 January, electrical equipment valued at over $59.6 million had arrived in the three northern governorates, of which nearly $47.8 million had been distributed to installation sites. The arrival of additional approved equipment with a total value of $101.7 million is still pending. Major work is now in progress at two hydropower plants to upgrade their generating units and to ensure their structural integrity. As an emergency drought relief measure, 377 generators have been procured to provide electricity to essential services, mainly water-pumping stations, and an additional 170 units have been allocated to health facilities.

191. However, it should be noted that in view of the greatly reduced inflows to the Derbendikan and Dokan irrigation dams in 1999 and insufficient precipitation over the recent winter season to replenish water levels, there is now a real prospect that the current hydroelectric output of less than one hour per day may represent the average daily output for the rest of the year. If additional water is released for irrigation, no further electricity generation from the hydroelectric stations will be possible. The United Nations, in consultation with the local authorities, is currently investigating short-term generation options to cover the essential needs of the population over the coming months.

192. The delivery of additional approved supplies for the electricity sector, with a total value of $101.7 million, is still pending, and no holds have been placed on any applications.

Settlement rehabilitation

193. In my supplementary report, special emphasis was placed on the need to accelerate the rate at which internally displaced persons could be better housed and supported, and, in particular, to facilitate the resettlement of families in their villages of origin (ibid., para. 48). This task was to be reinforced through the speeding up of mine clearance.

194. At present, more than 7,000 internally displaced families out of the targeted 15,000 (approximately 56,000 persons) have received direct assistance. For the internally displaced persons already resettled, some impressive results in the construction of family homes and the provision of basic infrastructure and services have been registered. Nearly 5,000 houses have been built by the United Nations Centre for Human Settlements (Habitat) to house internally displaced families. However, much of this sector's performance is dependent on the local capacity to undertake construction work and, with the increasing volume of work being generated by the programme, that capacity may be reaching its limit.

195. As at 31 January, supplies and funds worth $66.8 million had arrived for the rehabilitation of settlements, of which $42 million has been utilized or disbursed, including some $20 million for resettlement, nearly $7 million for water and sanitation projects and some $12 million for educational facilities.

Mine-related activities

196. In the area of mine-related activities, the rate of mine clearance has increased and the marginal cost of the activity has been reduced owing to the

deployment of dog teams. In addition, the training provided by international staff to local deminers and survey teams, dogs and their handlers and staff of the prosthetic centres for mine victims have helped to build local capacity for the long-term sustainability of demining in the north.

197. Supplies and funds worth over $21 million have arrived or been disbursed for United Nations mine-related activities. To date, the mine-action programme has surveyed 740 million square metres, making possible the identification of more than 3,000 new minefields since the start of the programme. More than 1,700 mines and over 4,500 items of unexploded ordnance have been destroyed, resulting in the clearance of over 2.3 million square metres of land.

198. Minefields that have been completely cleared and handed back include agricultural land, pastures, orchards and fuel-collection areas. In addition, by clearing access roads and adjacent areas, much larger areas have been freed and have become accessible, although it is difficult to quantify this area with any precision.

199. In the demining sector, a major programme of training has been initiated for local staff, resulting in the establishment of 13 mine-clearance teams and 18 survey teams. Programme inputs have enabled three rehabilitated prosthetic centres to treat more than 4,000 outpatients.

200. However, the progress of the demining programme is severely hampered by the fact that currently 198 mine detectors, purchased under phase VI, are still awaiting clearance for import by the Government of Iraq.

VI. OBSERVATIONS AND RECOMMENDATIONS

201. The adequacy of the programme to address the basic humanitarian needs of the Iraqi population has been a continuing concern throughout the period of implementation of Security Council resolution 986 (1995).

202. At the outset of the implementation of the programme in 1997, the rate of deterioration of the basic infrastructure was accelerating, exacerbating the overall poor nutritional status of the population and undermining public health. This required efficient procurement and distribution systems and a broader range of inputs, financed at a much higher level than was initially envisaged ($1.32 billion per phase). Although by its resolution 1153 (1998) the Security Council authorized an increase in the funding level of the programme from $1.32 billion to $3.4 billion per phase, and the distribution plans for phases IV and V sought to address these shortcomings, the time-frame required to halt deterioration of the humanitarian situation proved to be much longer than anticipated because of the serious funding shortfall due to unexpectedly low oil prices. The total funding shortfall for those two phases was $2.2 billion.

203. Despite the difficulties and shortcomings that have been identified in the present report, the programme has provided substantial assistance in all sectors to address pressing humanitarian needs affecting the lives of the Iraqi people. The total amount of funds made available for the implementation of the programme from December 1996 to 31 January 2000 was $13.2 billion. As at 31 January, the

total value of the supplies that had been delivered to Iraq was $6.7 billion - including over 13 million tons of food basket items valued at $4.4 billion and health supplies worth just under $840 million. Additional approved supplies with a total value of $2.7 billion were awaiting delivery, and additional supplies were being contracted during phase VII.

204. By adopting resolution 1284 (1999) on 17 December 1999, the Security Council has responded to concerns that the underlying weaknesses in the implementation of resolutions 986 (1995) and 1153 (1998) had not been adequately addressed and that, consequently, improvements in the humanitarian situation have been below expectations. I am hopeful that effective implementation of the provisions of section C of the resolution will enhance the impact of the programme in alleviating the humanitarian situation in Iraq.

205. By its resolution 1284 (1999) the Council also lifted the ceiling on revenues earned by oil exports which, coupled with the present substantial increase in the price of oil, will make more funds available for the implementation of the programme. However, lifting the ceiling and authorizing improvements in programme implementation alone will not suffice. The effectiveness of the programme has suffered considerably, not only because of shortfalls in the funding level but also because of the very large number of applications placed on hold, in particular those concerning electricity, water and sanitation, transport and telecommunications, which impact all sectors. The total value of applications placed on hold as at 31 January was over $1.5 billion. A determined effort must be made by all parties concerned to collaborate effectively with a view to making further improvements in the implementation of the programme. In this regard, I should also like to reiterate my appeal for a further review and reconsideration of positions taken with regard to applications placed on hold.

206. In this regard, I have directed the Office of the Iraq Programme to review further the information requirements of the Security Council Committee in respect of applications placed on hold. I have also directed the Office to identify ways in which the observation mechanism can more effectively track and report on a programme that is rapidly increasing in size and complexity and to enhance observation procedures for items of special interest to the Security Council Committee.

207. I wish to draw the attention of the Government of Iraq to the recommendations contained in my supplementary report (S/1998/90) that remain to be addressed, and further call upon the Government:

(a) To move away from an inventory-based approach to the distribution plan in favour of a project-oriented one, an approach already adopted for the oil sector;

(b) To share with the programme all existing baseline data relevant to the programme, and where such data do not exist to collaborate with the programme in collecting such data through joint surveys and reviews. This in turn will require the establishment of appropriate information systems and capacity-building within the technical ministries, local authorities and United Nations agencies, in both their implementation and observation functions, and I appeal

to the members of the Security Council Committee to participate in this exercise by facilitating the import of the necessary equipment;

(c) To share all technical data related to the electricity grid in the three northern governorates so that the rehabilitation there is compatible with established Iraqi engineering standards and specifications;

(d) To consider employing internationally recognized pre-shipment inspection agents at the port of shipment using funds in the United Nations Iraq account to improve food quality control. Likewise, the Ministry of Trade should seek to ensure that each commodity is contracted in full and that appropriate safeguards are in place against poor supplier performance;

(e) To strengthen cooperation with United Nations observers to ensure unhindered and timely access to all facilities and end-users, notably in the health and education sectors;

(f) To ensure that the food basket is distributed regularly and in full each month in order to meet the current nutritional target of 2,300 kilocalories and 54.2 grams of protein per person per day. However, this requires full implementation of my recommendations on supplementary feeding programmes. Until these essential measures are implemented, the Government's distribution plan should retain the target provision for the food basket of 2,463 kilocalories and 63.6 grams of protein per person per day to meet the immediate nutritional needs of the Iraqi population;

(g) To establish efficient distribution networks for targeted nutrition and supplementary feeding programmes;

(h) In view of the large funding shortfall in the health sector in phases IV to VI, to ensure adequate funding for both to cover recurrent costs and to provide the framework for the restoration of the basic public health care system. This includes the storage, testing and distribution of drugs, both imported and those manufactured locally. This would also assist in the rehabilitation of major health facilities, upgrade the training of health care staff and support primary health care services;

(i) To improve the delivery and administration of drugs for chronic illnesses and ensure that sufficient quantities of anti-infectious and anti-tuberculosis drugs are ordered and distributed.

208. Furthermore, I recommend that the Security Council Committee:

(a) Improve further its working procedures and understandings with a view to expediting the approval of applications;

(b) Identify with greater clarity the reasons for which applications have been placed on hold so that the Office of the Iraq Programme, in consultation with all concerned, may provide all available information to facilitate the lifting of such holds, which have reached an unacceptably high level;

(c) Streamline the processes by which such holds can be lifted. This applies particularly to applications that relate to basic infrastructure, including the electricity, water and sanitation, telecommunication and transport systems;

(d) Renew its efforts to reach consensus on the proposal submitted by the Office of the Iraq Programme on 11 February 1999 for a new system to expedite the rate at which funds are reimbursed from the ESC (13 per cent) to the ESB (53 per cent) accounts;

(e) Review further the options contained in the paper submitted on 7 July 1999 by the Office of the Iraq Programme concerning payment clauses for the ESB (53 per cent) account in order to meet the legitimate need to provide commercial protection for purchases made by the Government of Iraq within the provisions of the rules and regulations governing the implementation of the programme. It should be noted that even the most reputable suppliers may sometimes inadvertently ship the wrong items or items that do not fully conform to the terms of a contract;

(f) To address the difficulties encountered in the appointment of additional oil overseers in order to correct the present untenable situation.

209. It may be recalled that in paragraph 20 of resolution 1284 (1999), the Security Council decided to suspend, for an initial period of six months from the date of the adoption of the resolution and subject to review, the implementation of paragraph 8 (g) of resolution 986 (1995). I therefore wish to reiterate my recommendation contained in my report submitted to the Council pursuant to paragraph 32 of resolution 1284 (1999) (S/2000/22, para. 6), that, subject to approval by the Council, the Secretariat will reallocate these funds to the ESB (53 per cent) account. This would raise the allocation percentage as set out in annex III to my report of 25 November 1996 (S/1996/978) of net oil proceeds for the ESB (53 per cent) account from 53.034 per cent to 54.034 per cent.

210. I am very much concerned with the deteriorating condition of the oil industry of Iraq, as reconfirmed by the recent comprehensive survey of the industry by the group of oil experts I established pursuant to paragraph 30 of resolution 1284 (1999). Accordingly, I should like to reiterate my earlier recommendation that the Security Council approve the request to increase by $300 million the allocation for oil spare parts and equipment for phase VI, bringing the total allocation for phase VI to $600 million (see S/2000/26). I also recommend that the Council approve the allocation of an additional $300 million for spare parts and equipment for phase VII, bringing the total allocation during that phase to $600 million in order to sustain production levels at, or even near, current levels and in order to offset permanent damage to oil-bearing structures in Iraq.

211. Raising the level of allocations alone is not sufficient, however. A special effort must be made to approve most expeditiously the applications for oil spare parts and equipment. The total value of applications placed on hold as at 31 January 2000 was $291 million, more than half of the total of $506 million approved.

212. I also wish to recommend to the Council that it consider forgoing the requirement for a 90-day report on the implementation of the programme. Given the weekly and monthly application status reports, monthly implementation reports and briefings provided to the Committee and my 180-day report to the Council, it is my view that the need for a 90-day report has abated over the three years since the commencement of the implementation of the programme.

213. Notwithstanding the Council's readiness to consider arrangements enabling Iraqi pilgrims to perform the haj, it once more proved impossible last month to arrive at agreed arrangements in this regard (see S/2000/166, S/2000/167 and S/2000/175). It is my sincere hope that the Council will find a way of effectively overcoming the impediments that continue to prevent pilgrims from fulfilling their religious duties. I stand ready to assist the Council in search of an arrangement acceptable to all concerned.

214. Despite the measures adopted to improve the funding level and widen the scope of the programme, its full potential has not been attained because of numerous difficulties described in the present report. Accordingly, I should like to appeal once more to all concerned to intensify their efforts in order to enable the programme to address more effectively the difficult conditions under which the Iraqi people continue to live.

215. Finally, I wish to recognize the work of all United Nations staff, both in Iraq and at Headquarters, who have been fulfilling the mandate given to the programme by the Council in its resolution 986 (1995) with the highest degree of professionalism and commitment.

Annex I

Status of the United Nations accounts pertaining to the Iraq programme

1. As at 31 January 2000, $740.8 million had been deposited into the account for phase VII as authorized under resolutions 1281 (1999) and 1284 (1999), bringing the total oil sales since the inception of the programme to $21,476.5 million.

2. The allocation of total oil proceeds received from inception to date and the corresponding expenditures are as follows:

(a) $10,982.9 million has been allocated for the purchase of humanitarian supplies by the Government of Iraq, as specified in paragraph 8 (a) of Security Council resolution 986 (1995). Also, $211.4 million of interest earned in this account was available for the purchase of humanitarian supplies in the central and southern governorates of Iraq. In addition, $192.0 million was due for the reimbursement of the Government of Iraq for bulk purchases it made for northern Iraq that were distributed by the United Nations inter-agency humanitarian programme. Letters of credit issued by the Banque nationale de Paris on behalf of the United Nations to pay for humanitarian supplies for Iraq amounted to $8,322.1 million under phases I to VII;

(b) $2,666.3 million has been allocated for the purchase of humanitarian goods to be distributed in the three northern governorates by the United Nations inter-agency humanitarian programme, as specified in paragraph 8 (b) of resolution 986 (1995) and as revised by paragraph 2 of resolution 1153 (1998). Expenditures recorded for humanitarian goods approved by the Security Council Committee amounted to $1,562.7 million;

(c) $6,418.9 million has been transferred directly into the United Nations Compensation Fund, as specified in paragraph 8 (c) of resolution 986 (1995). As at 31 January 2000, a total of $175.3 million had been allotted to cover the operating expenditures of the Compensation Commission up to 31 December 2000, and $5,632.3 million had been allotted for payment of various instalments of "A", "C", "D", "E" and "F" claims;

(d) $454.3 million has been allocated for the operational and administrative expenses of the United Nations associated with the implementation of resolution 986 (1995), as specified in paragraph 8 (d) of the resolution. Expenditures for administrative costs for all United Nations entities involved in implementing the resolution amounted to $241.8 million;

(e) $154.0 million has been allocated to the United Nations Special Commission for the disarmament of Iraq for its operating expenses, as specified in paragraph 8 (e) of resolution 986 (1995). Expenditures of the Commission amounted to $74.4 million;

(f) $680.7 million has been set aside for transportation costs related to the export of petroleum and petroleum products originating in Iraq via the

Kirkuk-Yumurtalik pipeline through Turkey, in accordance with paragraph 8 (f) of the resolution and in line with procedures adopted by the Security Council Committee. Of that amount, $566.9 million has been paid to the Government of Turkey;

(g) $119.5 million has been transferred directly to the escrow account established pursuant to resolution 706 (1991) of 15 August 1991 and 712 (1991) of 19 September 1991 for the repayments envisaged under paragraph 6 of resolution 778 (1992) of 2 October 1992, as specified in paragraph 8 (g) of resolution 986 (1995) and subsequently in my report to the Council (S/1996/978, para. 34). Transfers to this account have been suspended in accordance with paragraph 20 of Council resolution 1284 (1999) of 17 December 1999. The total of repayments made amounted to $119.5 million.

Annex II

Number and value of letters of credit pertaining to oil proceeds and humanitarian supplies

Oil proceeds

Phase	Last deposit	Number of letters of credit	Value of letters of credit from oil sales (United States dollars)
I	27 June 1998	123	2 149 806 395.99
II	2 January 1998	130	2 124 569 788.26
III	30 June 1998	186	2 085 326 345.25
IV	28 December 1998	280	3 027 147 422.35
V	25 June 1999	333	3 947 022 565.12
VI	23 December 1999	352	7 401 894 881.57
VII (current)	As at 31 January 2000	124	740 768 004.85
Total		1 528	21 476 535 403.39

Humanitarian supply letters of credit for ESB (53%) account and bulk procurement

Phase	Number of letters of credit opened	Value of letters of credit opened (United States dollars)	Bank payments made on delivery (United States dollars)
I	870	1 229 078 786.69	1 225 251 899.20
II	538	1 197 759 389.19	1 160 567 224.15
III	669	1 209 273 197.37	1 152 163 603.86
IV Humanitarian supplies	683	1 567 882 477.78	1 254 761 601.47
IV Oil spare parts	450	248 088 651.08	155 061 781.44
V Humanitarian supplies	897	1 509 161 093.02	911 698 862.93
V Oil spare parts	332	146 169 055.45	22 263 661.15
VI Humanitarian supplies	590	1 180 154 628.39	92 437 245.50
VI Oil spare parts	80	34 527 371.30	1 908 169.00
VII (current)	0	-	-
Total	5 109	8 322 094 650.27	5 976 114 048.70